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October 17, 2007

VIA E-FILING AND HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Southland Utilities, Incorporated for Adjustment of Rates and Charges for the
Provision of Water Service
Docket No. 2007-244-W

Dear Mr. Terreni:

The Commission Staff alerted the parties that there appeared to be some errors in the exhibits to Mr. Townes and Ms. Ford's Settlement Testimony. The parties appreciate the opportunity afforded to correct those errors. Enclosed for filing are Revised Exhibits MEF-3 and MEF-4 of Ms. Ford's Settlement testimony and included as Exhibit C to the Settlement Agreement. Also enclosed are Revised Exhibits PBT-1 through PBT-6 of Mr. Townes Settlement Testimony which was included as Exhibit A to the Settlement Agreement.

If you have any questions or need additional information, please let me know.

Sincerely,

Nanette S. Edwards

cc: John M.S. Hoefler, Esquire
Benjamin P. Mustian, Esquire

Southland Utilities, Inc.
Docket No. 2007-244-W
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2006

Description	(1) Per Company Books	(2) Accounting & Pro Forma Adjustments Per Settlement	(3) As Adjusted Per Settlement	(4) Effect of Proposed Increase Per Settlement	(5) After Proposed Increase Per Settlement
	\$	\$	\$	\$	\$
<u>Operating Revenues</u>					
Service Revenue - Water	46,158	951 (A)	47,109	59,345 (M)	106,454
Miscellaneous Revenues	1,034	0	1,034	0	1,034
Uncollectible Accounts	(437)	(10) (B)	(447)	(564) (N)	(1,011)
<u>Total Operating Revenues</u>	<u>46,755</u>	<u>941</u>	<u>47,696</u>	<u>58,781</u>	<u>106,477</u>
<u>Operating Expenses</u>					
Maintenance Expenses	23,540	13 (C)	23,553	0	23,553
General Expenses	19,733	14,576 (D)	34,309	0	34,309
Depreciation and Amortization Expenses	4,093	3,917 (E)	8,010	0	8,010
Taxes Other Than Income	1,730	6,405 (F)	8,135	604 (O)	8,739
Income Taxes	(4,519)	(10,351) (G)	(14,870)	22,253 (P)	7,383
<u>Total Operating Expenses</u>	<u>44,577</u>	<u>14,560</u>	<u>59,137</u>	<u>22,857</u>	<u>81,994</u>
<u>Net Income for Return</u>	<u>2,178</u>	<u>(13,619)</u>	<u>(11,441)</u>	<u>35,924</u>	<u>24,483</u>
<u>Original Cost Rate Base</u>					
Gross Plant in Service	333,905	128,637 (H)	462,542	0	462,542
Less Accumulated Depreciation	(38,373)	33,059 (I)	(5,314)	0	(5,314)
Net Plant in Service	295,532	161,696	457,228	0	457,228
Cash Working Capital	5,625	2,625 (J)	8,250	0	8,250
Net Contributions in Aid of Construction	(98,385)	0	(98,385)	0	(98,385)
Accumulated Deferred Income Taxes	(44,494)	0	(44,494)	0	(44,494)
Customer Deposits	(4,026)	0	(4,026)	0	(4,026)
<u>Total Rate Base</u>	<u>154,252</u>	<u>164,321</u>	<u>318,573</u>	<u>0</u>	<u>318,573</u>
<u>Return on Rate Base</u>	<u>1.41%</u>		<u>-3.59%</u>		<u>7.68%</u>
<u>Interest Expense</u>					
Interest During Construction	(2,299)	2,299 (K)	0	0	0
Interest on Debt	10,045	2,520 (L)	12,565	0	12,565
<u>Total Interest Expense</u>	<u>7,746</u>	<u>4,819</u>	<u>12,565</u>	<u>0</u>	<u>12,565</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006

<u>Description</u>	<u>Settlement</u> \$	<u>Application</u> \$
<u>(A) Service Revenue - Water</u>		
1. ORS and Southland agree to adjust operating revenues to reflect current customers at current rates.	<u>951</u>	<u>(144)</u>
<u>(B) Uncollectible Accounts</u>		
2. ORS and Southland agree to adjust Uncollectible Accounts expense for the effect of the proposed revenue increase.	<u>(10)</u>	<u>(1)</u>
<u>(C) Operating and Maintenance Expenses</u>		
3. ORS and Southland agree to annualize operators' salaries as of 12/31/06 with a 4.0% increase, excluding bonuses. ORS found this increase to be supported by actual as of 07/01/07.	347	347
4. ORS and Southland agree to eliminate the 2.741% Bureau of Labor Statistic's Consumer Price Index ("CPI") increase in Purchased Power expense.	0	171
5. ORS and Southland agree to eliminate the CPI increase in Maintenance and Repair expense.	0	195
6. ORS and Southland agree to eliminate the CPI increase in Maintenance Testing expense.	0	17
7. ORS and Southland agree to eliminate the CPI increase in Meter Reading expense.	0	15
8. ORS and Southland agree to eliminate the CPI increase in Transportation expense.	0	17
9. ORS and Southland propose to increase Operating Expenses Charged to Plant to reflect an increase in salaries, taxes, and benefits for operators.	(334)	(334)
10. ORS and Southland agree to eliminate the CPI increase in Outside Services expense.	<u>0</u>	<u>63</u>
<u>Total Operating and Maintenance Expenses - Per ORS</u>	<u>13</u>	<u>491</u>
<u>(D) General and Administrative Expenses</u>		
11. ORS and Southland agree to annualize office salaries as of 12/31/06 with a 4.0% increase, excluding bonuses. ORS found this increase to be supported by actual as of 07/01/07.	288	288
12. ORS and Southland agree to eliminate the CPI increase in Outside Services expense. ORS and Southland agree to remove a \$2,172 of excess postage expense.	(2,172)	(1,959)
13. ORS and Southland stipulate to rate case expenses in the amount of \$50,000, subject to verification, and to amortize these expenses over a three year period.	16,194	47,845
14. ORS and Southland propose to annualize Pension and Other Benefits expense associated with the wage increase.	420	420
15. ORS and Southland agree to eliminate the CPI increase in Insurance expense.	0	44
16. ORS and Southland agree to eliminate the CPI increase in Office Utilities expense.	0	18
17. ORS and Southland agree to decrease Miscellaneous expense to remove fines and penalties.	<u>(154)</u>	<u>(154)</u>
<u>Total General and Administrative Expenses-Per ORS</u>	<u>14,576</u>	<u>46,502</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006

Description	Settlement \$	Application \$
<u>(E) Depreciation and Amortization Expenses</u>		
18. ORS and Southland agree to annualize Depreciation expense using adjusted plant in service as of June 2007. See Audit Exhibit PBT-3 for the details of the adjustment.	<u>3,917</u>	<u>3,802</u>
<u>(F) Taxes Other Than Income</u>		
19. ORS and Southland agree to adjust Taxes Other Than Income to reflect actual 2006 property tax expenses and to remove the impact of accrual adjustments. Additionally Gross Receipts Tax has been calculated at the current rate and Payroll Taxes reflect the updated salary amounts.	<u>6,405</u>	<u>6,005</u>
<u>(G) Income Taxes - As Adjusted</u>		
20. ORS and Southland agree to compute income taxes after accounting and pro forma adjustments using a state rate of 5% and a federal rate of 35%. See Audit Exhibit PBT-4 for details.	<u>(10,351)</u>	<u>(22,909)</u>
<u>(H) Gross Plant In Service</u>		
23. ORS and Southland agree to include known and measurable plant additions and capitalized time after the test year to June 2007.	142,084	137,191
24. ORS and Southland agree to include plant for work orders completed as of June 2007.	22,074	18,873
25. ORS and Southland agree to adjust for plant retirements associated with the completed work orders as of June 2007. The adjustment associated with Accumulated Depreciation is reflected in Adjustment No. 35.	<u>(35,521)</u>	<u>(35,000)</u>
Total Gross Plant In Service	<u>128,637</u>	<u>121,064</u>
<u>(I) Accumulated Depreciation</u>		
26. ORS and Southland agree to adjust accumulated depreciation for the additional plant and capitalized time.	2,462	2,112
27. ORS and Southland agree to adjust accumulated depreciation for the retired plant.	<u>(35,521)</u>	<u>(35,000)</u>
Total Accumulated Depreciation	<u>(33,059)</u>	<u>(32,888)</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2006

<u>Description</u>	<u>Settlement</u> \$	<u>Application</u> \$
<u>(J) Cash Working Capital</u>		
28. ORS and Southland agree to adjust Cash Working Capital based on pro forma expenses.	<u>2,625</u>	<u>(12,059)</u>
<u>(K) Interest During Construction</u>		
21. ORS and Southland agree to close out Interest During Construction to the Plant Accounts.	<u>2,299</u>	<u>2,299</u>
<u>(L) Interest on Debt</u>		
22. ORS and Southland agree to restate Interest on Debt using the settlement pro forma adjustments.	<u>2,520</u>	<u>2,377</u>
<u>(M) Service Revenues - Proposed Increase</u>		
29. ORS and Southland agree to an increase in service revenues per the settlement.	<u>59,345</u>	<u>97,232</u>
<u>(N) Uncollectible Accounts - Proposed Increase</u>		
30. ORS and Southland agree to adjust Uncollectible Accounts expense for the effect of the proposed revenue increase.	<u>(564)</u>	<u>(921)</u>
<u>(Q) Taxes Other Than Income - Proposed Increase</u>		
31. ORS and Southland agree to adjust utility/commission tax and gross receipts taxes for the effect of the proposed revenue increase.	<u>604</u>	<u>1,108</u>
<u>(P) Income Taxes - Proposed Increase</u>		
32. ORS and Southland agree to adjust income taxes for the effect of the proposed revenue increase using a state tax rate of 5% and a federal tax rate of 35%.	<u>22,253</u>	<u>36,415</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Depreciation and Amortization Expense Adjustment
Test Year Ended December 31, 2006

	\$
<u>Gross Plant @ December 31, 2006</u>	333,905
ADD:	
Pro Forma Projects, Capitalized Time, and General Ledger Additions	128,637
LESS:	
Organization Expense	1,832
Land	28,495
Vehicles	<u>14,770</u>
Depreciable Utility Plant	417,445
Utility Plant Depreciation @ 1.5% (66.67 years)	<u>6,262</u>
Vehicles	14,770
Vehicle Depreciation @ 25% (4 Years)	<u>3,693</u>
Total Depreciation	9,955
Less: Per Books Depreciation	<u>6,038</u>
Settlement Adjustment	<u>3,917</u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Computation of Income Taxes
For the Test Year Ended December 31, 2006

	<u>As Adjusted</u>
	\$
Operating Revenue As Adjusted	47,696
Less: Operating Expenses As Adjusted	<u>(74,007)</u>
Net Operating Loss Before Taxes	(26,311)
Less: Annualized Interest Expense	<u>12,565</u>
Taxable Income - State	(38,876)
State Income Taxes @ 5%	<u>5.00%</u>
State Income Taxes	<u>(1,944)</u>
Taxable Income - Federal	(36,932)
Federal Tax Rate @ 35%	<u>35.00%</u>
Total Federal Income Taxes	<u>(12,926)</u>
Total Federal and State Income Taxes	(14,870)
Less: Income Taxes Per Book	<u>(4,519)</u>
Adjustment	<u><u>(10,351)</u></u>
	 <u>After Proposed Increase</u>
Operating Revenue After Proposed Increase	106,477
Operating Expenses After Proposed Increase	<u>(74,611)</u>
Net Operating Income Before Taxes	31,866
Less: Annualized Interest Expense	<u>12,565</u>
Taxable Income - State	19,301
State Income Taxes @ 5%	<u>965</u>
Taxable Income - Federal	18,336
Federal Income Taxes - @ 35%	<u>6,418</u>
Total State and Federal Income Taxes	7,383
Less: Income Taxes As Adjusted	<u>(14,870)</u>
Adjustment	<u><u>22,253</u></u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Cash Working Capital Allowance
For the Test Year Ended December 31, 2006

	\$
Operating and Maintenance - As Adjusted	23,553
General and Administrative - As Adjusted	34,309
Taxes Other Than Income	<u>8,135</u>
Total Expenses for Computation	65,997
45-Day Allowance (1/8 Rate)	<u>12.50%</u>
Computed Cash Working Capital - As Adjusted	8,250
Cash Working Capital - Per Books	<u>5,625</u>
Cash Working Capital Adjustment Per Settlement	<u><u>2,625</u></u>

Southland Utilities, Inc.
Docket No. 2007-244-W
Return On Common Equity
Capital Structure at December 31, 2006

Description	-----As Adjusted-----					-----After Proposed Increase-----				
	Capital	Ratio	Rate	Embedded	Overall	Income	Rate	Embedded	Overall	Income
	Structure		Base	Cost/Return	Cost/Return	For	Base	Cost/Return	Cost/Return	For
	\$	%	\$	%	%	\$	\$	%	%	\$
Long-Term Debt	180,000,000	59.94%	190,950	6.58%	3.94%	12,565	190,950	6.58%	3.94%	12,565
Common Equity	120,304,320	40.06%	127,623	-18.81%	-7.54%	(24,006)	127,623	9.34%	3.74%	11,918
Totals	300,304,320	100.00%	318,573		-3.59%	(11,441)	318,573		7.68%	24,483

Used Capital Structure of Utilities, Inc. and Subsidiaries @ 12-31-2006

Revised Audit Exhibit PBT-6

Southland Utilities, Inc.
2007-244-W
Revenue Comparison

REVISED EXHIBIT MEF-3

Southland Utilities, Inc. Test Year Revenues at Current Rates

Service Type	Classification	Customer	Gallons	Usage Charge*	Service Units	Base Facilities Charge (BFC)*	Test Year Calculated Revenues
Water	Residential/Commercial	Single-family Houses - Creekwood	4,389,624	\$2.60	652	\$7.00	\$15,977
	Residential/Commercial	Single-family Houses - Cedarwood	8,064,553	\$2.60	1,452	\$7.00	\$31,132
Water Service Total			12,454,177		2,104		\$47,109

Proposed Settlement Rates

Service Type	Classification	Customer	Gallons	Usage Charge*	Service Units	Base Facilities Charge (BFC)*	Test Year Calculated Revenues	Proposed Calculated Revenue	Increase Amount
Water	Residential/Commercial	Single-family Houses - Creekwood	4,389,624	\$5.87	652	\$15.85	\$15,977	\$36,101	\$20,124
	Residential/Commercial	Single-family Houses - Cedarwood	8,064,553	\$5.87	1,452	\$15.85	\$31,132	\$70,353	\$39,221
Water Service Total			12,454,177		2,104		\$47,109	\$106,454	\$59,345

*Based upon monthly rates

Southland Utilities, Inc.
2007-244-W
Proposed Rate Comparison

REVISED EXHIBIT MEF-4

Water

Water	Customer Classification	Description	Unit of Measure	Present Rates	Proposed Rates in Application	Proposed Settlement Rates	Change from Present Rates to Settlement Rates
	Residential Water	Base Facilities Charge for single family house, condo, mobile home, apartment unit	per unit	\$7.00	\$21.79	\$15.85	\$8.85
	Commercial Water	Base Facilities Charge for hotels, stores, restaurants, offices, industry	per unit	\$7.00	\$21.79	\$15.85	\$8.85
	Commodity Charge	Commodity Charge for all customer classes provided water from Southland	per 1,000 gal	\$2.60	\$8.09	\$5.87	\$3.27
	Residential/Commercial	Water Service Connection Fee	Per SFE	\$100.00	\$100.00	\$100.00	\$0.00
	Residential/Commercial	Plant Impact Fee	Per SFE	\$400.00	\$400.00	\$400.00	\$0.00
	Residential/Commercial	Account Set-up Fee	Per Customer	\$25.00	\$25.00	\$25.00	\$0.00
	Residential/Commercial	Reconnection Fee	Per Occurance	\$35.00	\$35.00	\$35.00	\$0.00